



CSX Transportation, Inc.  
500 Water Street, J-801  
Jacksonville, Florida 32202  
Tel. 904-359-7637  
Email: Tony\_DiDeo@csx.com

**Tony DiDeo**  
**Director Intercarrier Management**  
**Joint Facilities**

March 23, 2018

**VIA OVERNIGHT MAIL AND ELECTRONIC MAIL**

Mr. Cannon Moss  
Director, President & General Manager  
Norfolk and Portsmouth Belt Line Railroad Company  
1340 Truxton Street  
Chesapeake, VA 23324

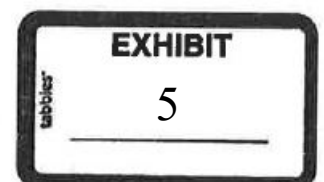
Ms. Donna Coleman  
Director, Vice President, Comptroller & Corporate Secretary  
Norfolk and Portsmouth Belt Line Railroad Company  
1340 Truxton Street  
Chesapeake, VA 23324

**Re: Rate Proposal for Long Term Rail Service to NIT**

Dear Sir and Madam:

By this letter, CSX Transportation (CSXT) requests that NPBL management adopt the following proposal for long term rail intermodal service to Norfolk International Terminals (NIT), as described in detail below, and as consistent with the NPBL's purpose and interests.

A few years ago, NPBL handled several intermodal trains during a period of near historical shipping container congestion at the ports in Virginia and along the east coast. From those movements alone, we confirmed that consistently operating trains to NIT for CSXT is possible. During that short-lived crunch, CSXT was able to justify the extremely high cost of moving those trains via NPBL at its general tariff rate only because the Virginia Port Authority (VPA) and our customers were desperate to clear the backlog caused by the



unexpected container surge, and our drayage providers were completely overwhelmed. In other words, we had no other practical choice at the time.

The NPBL's general tariff rate, however, remains prohibitive for normal movements of shipping containers to and from NIT. NPBL has not handled a single intermodal train for CSXT since that period of extreme congestion (nor did it move any intermodal trains to NIT for CSXT prior to that time). This is principally because NPBL's unduly high rates, as well as operational constraints on its service to NIT that should not have existed, and in all events are avoidable or remediable, have made use of NPBL to move containers to or from NIT economically non-viable, or even effectively impossible.

We have been studying this issue closely, however, and remain confident that a rate package promptly can be negotiated and agreed-to that would provide the NPBL with a consistent, long term stream of additional income that could improve its financial position and sustain it into the future, while also being sufficiently reasonable that NPBL could attract sufficient additional traffic to support the rates profitably. In fact, we estimate the service for CSXT we are proposing will generate for NPBL approximately \$1,440,000 in incremental revenue and potentially \$660,000 in incremental operating income in the first year of service alone (estimates based on NPBL's 2016 Annual Report).

The following is a proposal of terms which can serve as the foundation for a definitive rail transportation agreement. We are open to discussion on all points, and welcome your input throughout the process, though we want to move this to conclusion swiftly and see no reason it cannot be.

### **Background**

On July 19, 2010, CSXT provided NPBL management with a formal rate proposal and operating plan (enclosed), which was the product of months of review with NPBL management and Virginia International Terminals (VIT). In particular, NPBL management provided financial and costing information that allowed CSXT to tailor its proposal in a manner that would have provided consistent additional operating income to the NPBL and would have been mutually beneficial for NPBL and CSXT. We expect much of the work and learning from that extensive review process is still relevant and useable, and can be replicated or updated to expedite development of a new mutually-beneficial arrangement. Similarly, we believe the commercial sensitivity and depth of historical information on hand would obviate the need for convening another rate committee, but we are willing to work again through this approach if necessary.

With respect to the operating plan, we are pleased to report that senior officers of CSXT have already met with VPA officers to discuss our objective. The VPA was very supportive of our plans and have committed to assisting us with this important endeavor. Thus, much like the rate committee, we expect any discussions with VIT regarding operations will be productive and can be arranged in short order.

### **Summary of Proposed Rates and Contractual Terms**

The past two decades have demonstrated that the NPBL general tariff charge of \$210 per car (or per unit, in the case of articulated cars) remains an economic barrier for the NPBL to handle intermodal freight. This charge, whether absorbed by CSXT or passed through to the customer, is simply not competitive for any lane on our network and beyond. Although the NPBL's tariff history demonstrates that the NPBL has often published different switch charges for different commodities, we are aware of NPBL managements' past statements that it was not willing to offer different rates based on commodities. Similarly, we understand the NPBL has faced challenges from its Board and/or the other shareholder with respect to private contracts. More specifically, some Board members in the past have argued that an amendment to the NPBL bylaws would be required to permit the NPBL to enter into private freight contracts (even though the NPBL enters into private contracts for other services, such as locomotive leases, contractor services, etc.), and to allow use of non-NPBL owned or leased locomotives for movements over NPBL trackage. After reviewing case law and Virginia code extensively, we are not convinced this is an accurate interpretation of NPBL's bylaws or the law, generally. Nevertheless, we believe that we will be able to reach agreement on a long term transportation agreement that will be sufficiently beneficial to NPBL such that no reasonable person could refuse to take whatever action is necessary to allow NPBL to enter into such a contract, even if it would involve using locomotive power provided by CSXT or another company. By doing so, we might also be able to lay the groundwork for similar rates and services to be provided by NPBL for NS to reach Portsmouth Marine Terminal (PMT) going forward.

Even at an income-neutral level, we think aspects of how the NPBL operates need to be updated for it to remain viable and competitive, and able to fulfill its charter. Port traffic in Norfolk and Portsmouth is continuing to increase, and NIT is undergoing a radical expansion thanks in large part to a capital infusion of hundreds of millions of taxpayer dollars. If ever there was a time to demonstrate the NPBL's commitment to serve its shareholders and the community that supports it financially, and provide intermodal service to NIT, it is now. Failure to seize this opportunity virtually begs VPA to configure NIT in a manner that would effectively preclude NPBL from continuing to provide even nominal rail service to NIT.

#### ***Rate:***

We propose \$80 per car (i.e., each articulated section of an articulated car), for loaded or empty cars, moved to or from NIT for the purpose of handling international containers. We think this rate will be sufficiently competitive to attract incremental rail intermodal freight to NIT, while allowing NPBL to earn additional revenue of \$1,440,000, annually, based on the initial level of volume we describe below.

***Volume:***

CSXT proposes a minimum annual volume guarantee, with mutually agreed conditions, of moving 18,000 cars (i.e., each articulated section), loaded or empty, moving to or from NIT, on the NPBL per contract year. We are open to a gradual ramp up of volumes in the first years, to allow for less volume in the initial years, progressing (or even exceeding) the proposed volumes in this proposal letter. Finally, we are willing to negotiate mutually-suitable minimum and/or maximum train sizes (on a per car basis).

***Shortfall Fee:***

CSXT proposes a shortfall fee of \$60 per car, based on a minimum volume commitment of 18,000 cars per year. Standard defenses or exceptions (e.g., force majeure) would apply.

***Days of Service:***

We have modeled our proposal based on 5 days per week service, consistent with the days of operation at NIT, in order to take advantage of the efficiency and safety benefits provided by fixed crew assignments. Over time, we would be interested in up to 7 days per week service (with a corresponding increase in guaranteed minimum volume), and are willing to consider a graduated “ramp up” to 7 days in the earlier stages of this service. We understand we will both need to consider labor costs, among other things, and are willing to work with you to maximize productivity.

***Start Date and Term:***

CSXT is ready, willing and able to commence service today. That said, we would be open to a commencement date within 30 days of the execution and delivery of the mutually agreed contract. With respect to the term of any agreement, CSXT is willing to negotiate a reasonable fixed term, including conditions for renewal, all to be mutually agreed.

***Locomotives and Fuel:***

CSXT is willing to provide NPBL with the locomotives and fuel to handle movement of CSXT traffic at no charge to NPBL. We understand there has been an objection to using CSXT power in the past, even though CSXT and NS locomotives operate on NPBL property every day. As noted above, we think we can reach a mutually agreed arrangement that is sufficiently attractive to motivate appropriate corporate action (if any is necessary) to remove any obstacles. Nevertheless, we are also willing to work with NPBL to adjust the

rates and operating plan to account for use of NPBL power and fuel, at least to the extent and for so long as any corporate formality actually requires NPBL to do so.

Regardless of which locomotives are used for the move, we would defer to NPBL's stated preference or requirements with respect to the minimum locomotive power (i.e., Horsepower per Ton Ratio).

***Interchange Location, Time of Handoff, and Maximum Train Length:***

Here again, we would defer to the NPBL with respect to the interchange location, and are open to designation of multiple interchange locations (e.g., Berkley Yard and Portsmouth Yard) to be determined by the parties prior to each interchange event. Rates would remain the same, regardless of interchange location. Similarly, we are willing to work with you to determine operating windows for the exchange of interchange cars. We understand that, at least initially, the windows may vary on a weekly (if not daily) basis.

***Documentation:***

The foregoing terms would be subject to and become binding only upon memorialization in a mutually agreed written format (rail transportation contract or equivalent) duly signed for both NPBL and CSXT.

**Economic Impact on the NPBL**

Based on CSXT's internal projections of the NPBL cost structure, and the use of CSXT's locomotives and fuel at no cost to NPBL, we estimate this proposal would provide the NPBL with a minimum of \$660,000 of additional annual operating income (and an operating ratio for the service equal to 54%) starting in the first full year of operations. That would represent a substantial increase over 2016 total operating income for the NPBL, with almost zero risk to the NPBL.

It is worth emphasizing that there is nothing but upside to this proposal, especially with a baseline commitment from CSXT to move 18,000 cars per year. Given the estimated operating ratio NPBL would enjoy from this service, and CSXT's expectation that volumes will only grow once the parties can demonstrate consistent service, we believe this proposal could be a significant element of NPBL's long term strategy in Norfolk.

**Operating Plan**

The requested services is for "drop and swap" intermodal single-stack or double-stack unit train service between Berkley Yard (or Portsmouth Yard) and NIT. We intend to



work with you to minimize direct expenses to the NPBL, to work with VIT to integrate with existing and planned operations inside the gate at NIT. We also recognize the need to work with NS to integrate with their operating needs, and we believe it is imperative for all parties to work together in order for NPBL to honor its longstanding obligation to provide service to its owners, to enjoy the use of its trackage rights, and to fulfill the purpose of its retained trackage rights from the sale of its property outside of NIT to the VPA in 2010.

We also note that the NPBL management endorsed the operating plan detailed in the July 19, 2010 rate proposal, and we are willing to work from that operating plan with such adjustments as may be deemed necessary to address any bona fide concerns raised by NS or VIT.

### **Summary**

During the eight years since CSXT's last proposal for long term rail intermodal service, CSXT has had no choice but to dray over one hundred thousand containers that easily could have been handled by the NPBL. Under the current proposal, and based solely on a minimum volume, the NPBL could earn at least \$11 million in revenue and over \$5 million in incremental operating income over the same period. As NIT continues work on its massive expansion project, nearly doubling its present throughput, the projected earnings from this proposal could increase tremendously.

As stated above, we are fully committed to work with the NPBL to address any concerns regarding the requested service and any other terms of this proposal. Given the opportunity presented by this proposal, and the downside if we must continue to rely on drayage, there can be no doubt that time is of the essence for both parties. To that end, we respectfully request a written response to this proposal no later than **April 2<sup>nd</sup>**.

We look forward to working with you on this important project.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tony DiDeo", with a stylized flourish at the end.

Tony DiDeo

(Enclosure – July 19, 2010 Rate Proposal and Operating/Financial Plan)

July 19, 2010 Rate Proposal & Operating/Financial Plan

[Please see attached]



500 Water Street, J315  
Jacksonville, FL 32202  
(904) 359-3486  
John\_Booth@csx.com

J.N. Booth, III  
Director Joint Facilities

July 19, 2010

**VIA ELECTRONIC MAIL**

Mr. David Stinson  
Director, President & General Manager  
Norfolk and Portsmouth Belt Line Railroad Company  
P.O. Box 7545  
Portsmouth, VA 23707

Ms. Donna Coleman  
Director, Vice President, Comptroller & Corporate Secretary  
Norfolk and Portsmouth Belt Line Railroad Company  
P.O. Box 7545  
Portsmouth, VA 23707

Re: **Rail Service Connection to NIT – Rate Proposal and Operating/Financial Plan**

Dear Sir and Madam:

We refer to CSXT's October 15, 2009 rate proposal, which was rejected by the NPBL because it did not include a detailed operating plan and estimated financial impact on the NPBL. To address the NPBL's concerns, CSXT has consulted with the NPBL and Virginia International Terminals, Inc. (VIT) on the following operating plan, and has further examined relevant financial information, including information provided to the 2009 NPBL Rate Committee.

CSXT is now pleased to offer the following rate proposal, together with an operating plan and related financial information. As detailed below, and assuming NPBL elects to use CSXT locomotives at no charge, this rate proposal will provide the NPBL with at least \$149,452 in risk-free incremental operating income in the first calendar year of operations alone.



## **Operating Plan**

This operating plan is for intermodal single-stack unit train service between Berkley Yard and Norfolk International Terminals (NIT). In addition to minimizing direct expenses to the NPBL, this operating plan is designed to integrate with existing and planned operations inside the gate at NIT.

At the onset, CSXT requests a drop & swap service three days per week; whereby the NPBL would complete services at NIT between 00:00 and 05:00 on Sunday, Tuesday, and Thursday. For your convenience, Annex A to this letter proposal provides a visual overview of the rail movements in the operating plan described below:

- First, CSXT will deliver a locomotive, including sufficient fuel for the round-trip to NIT, and cars to Berkley Yard, by 18:00 on the preceding day.
- Between 18:00 and 21:00 on the days of CSXT's delivery to Berkley Yard, the NPBL will access NSRR tracks starting at NS Jct., as permitted by agreements between NPBL, NSRR and their respective predecessors dated: July 26, 1917, July 27, 1917, December 31, 1985 and January 1, 2008.
- At Port Lock Yard, the NPBL will pull into an available track, as designated by the NSRR Yard Master. At this time, the NPBL crew will cut away from the front of this consist, run around to the tail, and reconnect. NPBL will perform required brake testing prior to departing. At this point, the NPBL will be staged and waiting for the NSRR Yardmaster to grant permission for movement to NIT.
- After departure from Port Lock Yard, the NPBL will arrive at NIT during the scheduled window from 00:00 to 05:00. As the NPBL advances the 8 miles to QM Jct. (crossing the right leg of the switch), it will proceed past West Jct. onto the NPBL trackage, known as Sewells Point Yard. Here, the crew will set off the consist onto the passing track near Hampton Blvd. and North Gate Road.
- The NPBL crew will then contact VIT for instructions relative to any outbound CSXT containers to be pulled from NIT.
  - If there is an outbound consist to be picked up at NIT, the NPBL crew will advance to NIT and retrieve the consist from the pickup track designated by VIT.
    - The consist will already have been inspected and air tested by TTX, at no cost to the NPBL.
    - The NPBL crew will backtrack over the same route returning to Berkley Yard for CSXT pick up between 13:00 and 17:00 same day.
  - If there is no outbound consist to be picked up at NIT, the NPBL crew would return the locomotive to Berkley during that same window.

Please note the following, which was incorporated into this operating plan:

- The NPBL management has expressed confidence that the proposed round-trip schedule can be completed efficiently with one scheduled crew start.
- This operating plan assumes the NPBL will use CSXT's locomotive between Berkley and NIT without cost or requirement to refuel.
  - This accommodation will not only simplify operations for these moves, it will enhance NPBL's profitability as noted in the first table below. If NPBL elects to use its own power, the calculations shown in Table 2 will apply.

### **Rates and Contractual Terms**

In order for the NPBL to secure port-related traffic at NIT, its rates and operating requirements must be competitive. Presently, the NPBL's switch rate of \$ 210 per car is an economic barrier that prevents CSXT from being able to move any meaningful port freight by rail at NIT.

Here's why: under Item 125 of its public tariff, the Commonwealth Railway charges \$35.61 per container (empty or loaded) for a similar movement from APM Terminals. The difference between switch charges is considerable, and will only make the NPBL's rate less competitive now that VIT can shift traffic to APM Terminals in its discretion.

CSXT is not interested in placing the full burden on the NPBL to close this gap. Our proposed operating plan, which provides substantial risk-free incremental operating income, demonstrates our willingness to make accommodations to help the NPBL in this effort.

Accordingly, CSXT proposes the following, all to be memorialized in a formal agreement:

- One-way rate of \$37.50 per container (empty or loaded) for a term of three years on movements handled by the NPBL between Berkley Yard and NIT. For operational convenience as necessary, the parties may mutually agree to interchange at Portsmouth Yard for the same rate.
- To minimize financial risk to the NPBL, CSXT commits to provide a minimum average volume (measured over each six month period during the term) of 50 containers per scheduled NPBL round-trip. Assuming three days per week service, the NPBL would have a consistent revenue stream of \$146,250 for 3,900 containers for that six month period.
- In consideration of CSXT's commitment, CSXT may request that scheduled service days be adjusted upon CSXT's prior written request. Also upon prior written request, CSXT may request double-stack service at the same rate per container.

These adjustments, with allowance for proper notice, would give both parties adequate time to respond to changing market conditions.

- The NPBL's standard settlement and credit terms would apply to the covered traffic, with any potential container shortfall payment to be remitted in a reasonable time after each six month period.
- Mutually acceptable measures and standards of service, including incentives related thereto, would be incorporated into a formal agreement.

### **Economic Impact on the NPBL**

As shown below in Table 1, based on CSXT's internal analysis of the NPBL cost structure, and the use of CSXT's locomotives and fuel at no cost, this proposal would provide the NPBL with a minimum of \$149,452 of additional annual operating income starting in the first full year of operations. That would represent an increase of 25% over 2009 total operating income for the NPBL, with almost zero risk to the NPBL.

It is worth emphasizing that there is nothing but upside to this proposal, especially with a baseline commitment of 50 containers. For example, if CSXT tenders 80 containers per round-trip (the "Project Volume"), the NPBL's incremental operating income would be \$296,872 over the first full year of operations. This modest increase in volume is not an unreasonable projection, and yet it would represent almost a 50% increase to 2009 operating income.

[TABLES FOLLOW ON NEXT PAGE]

**Table 1**

	<b>W/ CSXT Locomotives &amp; Fuel</b>	
	<u>Base Level</u>	<u>CSXT Projected</u>
Avg. Containers Per Train (Scheduled Crew)	50	80
<b>Annual</b>		
Container Volume	7,800	12,480~
NPBL Revenue	\$292,500	\$468,000
Compensation & Benefits	\$96,248	\$96,248
Locomotive Expense	\$0	\$0
Fuel	\$0	\$0
Incremental Maintenance	\$46,800	\$74,880
Direct Expense*	\$143,048	\$171,128
Operating Income Impact	\$149,452	\$296,872
* Extrapolated from 2009 Rate Committee Meeting Package		

**Table 2**

	<b>W/ NPBL Locomotives &amp; Fuel</b>	
	<u>Base Level</u>	<u>CSXT Projected</u>
Avg. Containers Per Train (Scheduled Crew)	50	80
<b>Annual</b>		
Container Volume	7,800	12,480
NPBL Revenue	\$292,500	\$468,000
Compensation & Benefits	\$96,248	\$96,248
Locomotive Expense	\$10,714	\$10,714
Fuel	\$19,000	\$19,000
Incremental Maintenance	\$46,800	\$74,880
Direct Expense*	\$172,762	\$200,842
Operating Income Impact	\$119,738	\$267,158
* Extrapolated from 2009 Rate Committee Meeting Package		

**Note to Table 2:** As noted above, CSXT's operating and financial plan contemplates the NPBL's use of CSXT locomotives and fuel at no charge. However, should the NPBL wish to use its own locomotives and fuel, Table 2 provides an estimate of the economic impact to the NPBL, which remains quite favorable.

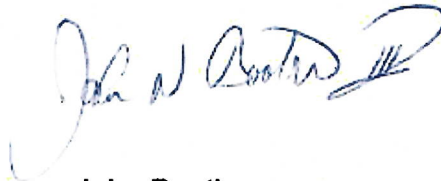
If the NPBL elects not to use CSXT's locomotives and fuel, the NPBL would still make \$119,738 in incremental operating income at the base-line volume commitment level in the first year of operations. And, using the Projected Volume, the NPBL would generate \$267,158 of incremental operating income, which would represent an increase of approximately 45% over 2009 total operating income for the NPBL.

**Summary**

CSXT reaffirms its belief that time is of the essence for the NPBL to consider this proposal, which is designed to enable both parties to attract intermodal port traffic at NIT. The outlined operating plan and projected financial gains respond to the NPBL's earlier concerns and provide the justification necessary for the NPBL management to support this endeavor.

CSXT also believes this proposal enables the NPBL to deliver on the commitments it has made, directly and indirectly, to the citizens of the Commonwealth, to create competitive dual rail service at NIT. We hope you agree and respectfully request a favorable response from you within thirty (30) days of this letter.

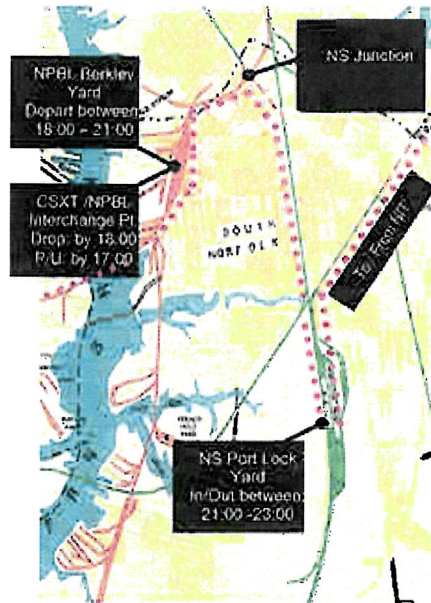
Very Truly Yours,

A handwritten signature in blue ink, appearing to read "John W. Booth III", is written over the typed name.

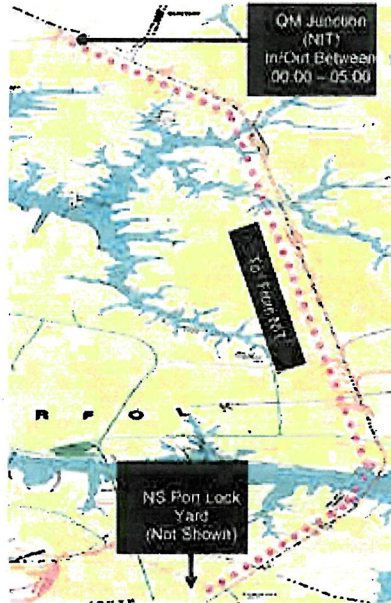
John Booth

### Operating Plan Support Maps

#### CSXT → Berkley Yard → NSRR Port Lock Yard



#### NSRR Port Lock Yard → NIT



### Norfolk International Terminals

